

**POCAHONTAS AREA
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Jann Ricklefs	President	2005
Stephen Baade	Vice President	2003
Thomas Nedved		2004
Dan Duitscher		2005
Timothy Cook		2005
Jeff Kerns		2004
Jody Lyons		2003

(After September, 2003 Election)

Jann Ricklefs	President	2005
Timothy Cook	Vice President	2005
Thomas Nedved		2004
Dan Duitscher		2005
Jeff Kerns		2004
Jody Lyons		2006
Raymond Seehusen		2006

SCHOOL OFFICIALS

Dennis Pierce	Superintendent
Diane Pattee	District Secretary/ Treasurer

Independent Auditor's Report

To The Board of Education of the
Pocahontas Area Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Pocahontas Area Community School District, Pocahontas, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of Pocahontas Area Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the financial statements, during the year ended June 30, 2004, Pocahontas Area Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated October 21, 2004 on our consideration of Pocahontas Area Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 thru 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pocahontas Area Community School District's basic financial statements. We previously audited the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

October 21, 2004

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pocahontas Area Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,824,247 in fiscal 2003 to \$5,755,240 in fiscal 2004, while General Fund expenditures increased from \$5,893,129 in fiscal year 2003 to \$6,046,650 in fiscal 2004.
- The decrease in General Fund revenues was attributable to an across the board cut in state foundation aid and other state funding cuts. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The General Fund balance decreased over \$290,000 in the past Fiscal year, a 14% decrease.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in a decrease in interest earnings in the General Fund of over \$25,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

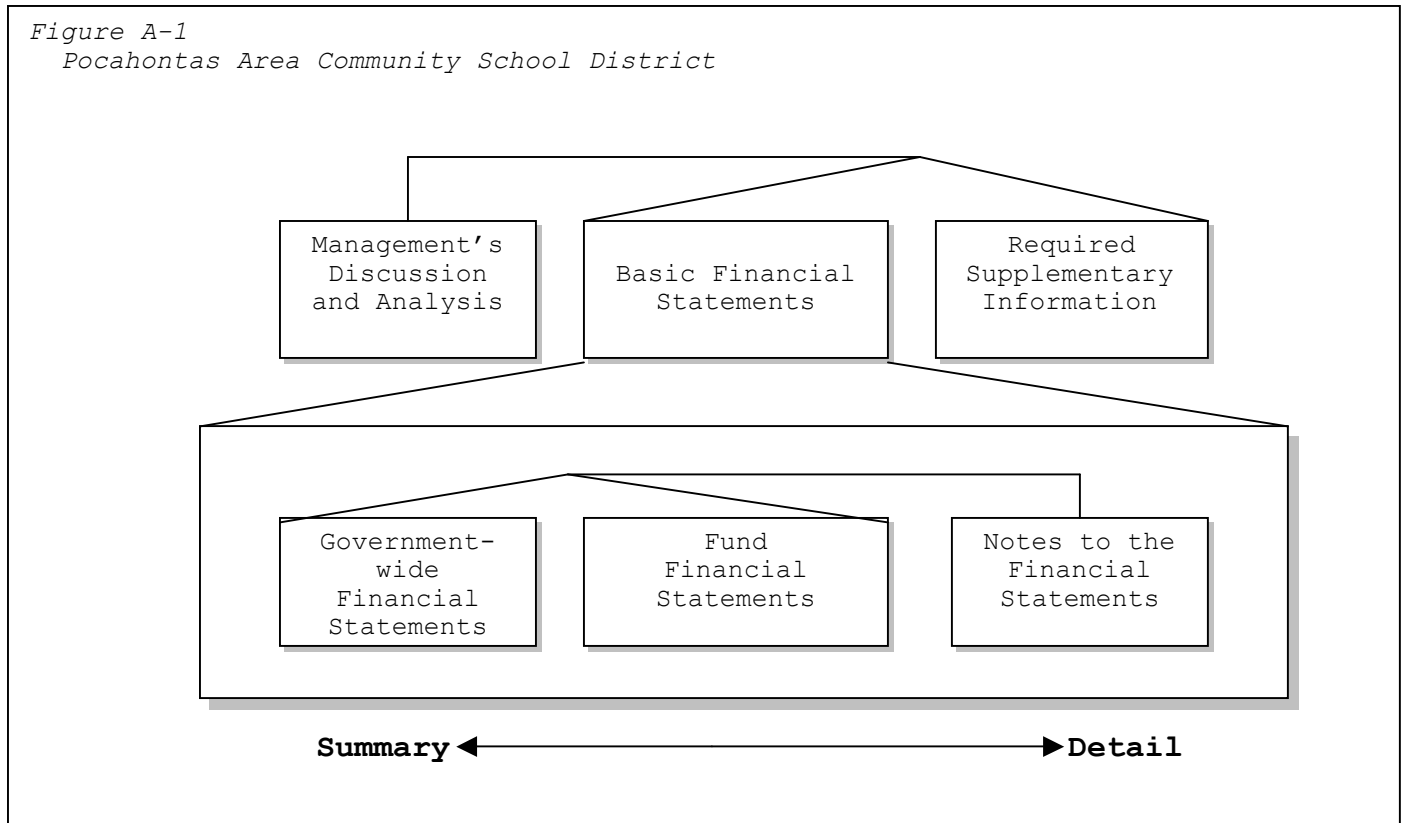


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain the remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2

Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The two Government-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the Government-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the Government-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Fund.

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Current assets	2,564	2,900	18	58	2,582	2,958	-12.71%
Capital assets	2,637	2,754	13	18	2,650	2,772	-4.40%
Total assets	5,201	5,654	31	76	5,232	5,730	-8.69%
Current liabilities	139	138	-	-	139	138	0.72%
Non-current liabilities	-	79	-	-	-	79	-100.00%
Total liabilities	139	217	-	-	139	217	-35.94%
Net Assets							
Invested in capital assets, net of related debt	2,613	2,675	24	18	2,637	2,693	-2.08%
Unrestricted	2,449	2,762	7	58	2,456	2,820	-12.91%
Total net assets	5,062	5,437	31	76	5,093	5,513	-7.62%

The District's combined net assets were less at June 30, 2004 than June 30, 2003. The decrease occurred as a combined result of decreased tax revenue from all sources and increases in payroll.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	373	142	515
Operating grants, contributions and restricted interest	1,053	128	1,181
General revenues:			
Property tax	2,517	-	2,517
Unrestricted state grants	2,236	-	2,236
Unrestricted investment earnings	64	-	64
Other	96	-	96
Total revenues	<u>6,339</u>	<u>270</u>	<u>6,609</u>
Program expenses:			
Governmental activities:			
Instruction	4,342	-	4,342
Support Services	1,804	-	1,804
Non-instructional programs	5	314	319
Other expenses	562	-	562
Total expenses	<u>6,713</u>	<u>314</u>	<u>7,027</u>
Change in net assets	<u>(374)</u>	<u>(44)</u>	<u>(418)</u>

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,339,254 and expenses were \$6,713,555.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	4,342	3,230
Support Services	1,805	1,764
Non-instructional programs	5	5
Other expenses	<u>562</u>	<u>287</u>
Totals	<u>6,714</u>	<u>5,286</u>

- The cost financed by users of the District's programs was \$373,367.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$743,712.
- The net cost of governmental activities was financed with \$2,517,174 in property tax, \$2,236,075 in state foundation aid, and \$63,819 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$269,668 and expenses were \$314,443. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted Pocahontas Area Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 5,062,464, a seven percent decrease under last year's ending fund balances of \$5,436,765. The primary reason was the decrease of revenues from all sources.

Governmental Fund Highlights

- The District's General Fund balance decreased due to funding cuts by the State of Iowa in mid-year, discontinuance of Phase III funding and decreased investment income.
- The District's Physical Plant and Equipment Levy increased. A Fire and Safety Grant of over \$40,000 was received allowing the District to make needed improvements from funding sources other than property taxes.

Proprietary Fund Highlights

The District's Nutrition Fund decreased as a result of decreased participation and increased food costs.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

Legal Budgetary Highlights

The District's receipts were \$810,782 less than budgeted receipts, a variance of 8%. The most significant variance resulted from the District receiving less in state aid than originally anticipated and reductions in property taxes and Federal grant activity.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$2.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 4% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$233,702.

The original cost of the District's capital assets was \$6,129,062. Governmental funds account for \$6,075,781, with the remainder of \$53,281 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
	\$	\$	\$	\$	\$	\$	
Land	144	144	-	-	144	144	0.00%
Site improvements	108	120	-	-	108	120	-10.00%
Buildings	1,623	1,680	-	-	1,623	1,680	-3.39%
Furniture and equipment	761	810	13	18	774	828	-6.52%
Totals	<u>2,636</u>	<u>2,754</u>	<u>13</u>	<u>18</u>	<u>2,649</u>	<u>2,772</u>	<u>-4.44%</u>

Long-Term Debt

At June 30, 2004, the District had \$24,457 in Capital loan notes outstanding. This represents a decrease of approximately 70% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 7 to the financial statements. The notes will be fully paid off in FY05.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

Total		Total
District		Change
June 30,		June 30,
2004	2003	2003-2004
\$	\$	
Capital loan notes	24	79
		-69.62%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District will have costs to incur in regards to the Rolfe building. This will affect the Physical Plant and Equipment Levy primarily.
- The District has experienced declining enrollment the past several years.
- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This will force the District to make cuts, or use some of the cash on hand. Future state aid cuts have also been discussed. Cuts made during the fiscal year negatively impact the District's balances as adequate expense reductions are not possible.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired).
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Diane Pattee, District Secretary, Pocahontas Area Community School District, 202 1st Ave SW, Pocahontas, IA 50574-1910.

Basic Financial Statements

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	2,310,228	17,639	2,327,867
Receivables:			
Property tax:			
Current year	25,943	-	25,943
Succeeding year	2,272,031	-	2,272,031
Due from other governments	118,662	-	118,662
Other receivables	24,263	110	24,373
Prepaid expenses	85,532	-	85,532
Capital assets, net of accumulated depreciation	2,636,688	13,545	2,650,233
Total assets	<u>7,473,347</u>	<u>31,294</u>	<u>7,504,641</u>
Liabilities			
Accounts payable	64,067	-	64,067
Accrued payroll and benefits	26,107	-	26,107
Deferred revenue:			
Succeeding year property tax	2,272,031	-	2,272,031
Long-term liabilities:			
Portion due within one year:			
Early retirement payable	24,221	-	24,221
Capital loan notes payable	24,457	-	24,457
Total liabilities	<u>2,410,883</u>	<u>-</u>	<u>2,410,883</u>
Net assets			
Invested in capital assets, net of related debt	2,612,231	13,545	2,625,776
Restricted for:			
Internal services	80,307	-	80,307
Management levy	174,753	-	174,753
Student activities	57,953	-	57,953
Physical plant and equipment levy	385,195	-	385,195
Unrestricted	1,752,025	17,749	1,769,774
Total net assets	<u>5,062,464</u>	<u>31,294</u>	<u>5,093,758</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	1,823,262	341,054	145,912	2,310,228
Receivables:				
Property tax:				
Current year	22,745	2,427	771	25,943
Succeeding year	1,991,180	185,851	95,000	2,272,031
Due from other governments	76,948	41,714	-	118,662
Other receivables	23,772	-	491	24,263
Prepaid expenses	-	-	85,532	85,532
Total assets	<u>3,937,907</u>	<u>571,046</u>	<u>327,706</u>	<u>4,836,659</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	64,067	-	-	64,067
Accrued payroll and benefits	26,107	-	-	26,107
Deferred revenue:				
Succeeding year property tax	1,991,180	185,851	95,000	2,272,031
Total liabilities	<u>2,081,354</u>	<u>185,851</u>	<u>95,000</u>	<u>2,362,205</u>
Fund balances:				
Reserved for internal services	80,307	-	-	80,307
Unreserved	1,776,246	385,195	232,706	2,394,147
Total fund balances	<u>1,856,553</u>	<u>385,195</u>	<u>232,706</u>	<u>2,474,454</u>
Total liabilities and fund balances	<u>3,937,907</u>	<u>571,046</u>	<u>327,706</u>	<u>4,836,659</u>

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 2,474,454
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,636,688
Long-term liabilities, including notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(48,678)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 5,062,464</u></u>

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,207,600	234,971	-	74,603	2,517,174
Tuition	372,820	-	-	-	372,820
Other	195,560	48,338	-	225,575	469,473
State sources	2,770,389	400	-	127	2,770,916
Federal sources	208,871	-	-	-	208,871
Total revenues	<u>5,755,240</u>	<u>283,709</u>	<u>-</u>	<u>300,305</u>	<u>6,339,254</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,822,688	-	-	58,054	2,880,742
Special instruction	890,307	-	-	-	890,307
Other instruction	422,866	-	-	235,605	658,471
	<u>4,135,861</u>	<u>-</u>	<u>-</u>	<u>293,659</u>	<u>4,429,520</u>
Support services:					
Student services	217,269	-	-	4,231	221,500
Instructional staff services	105,627	-	-	-	105,627
Administration services	593,265	-	-	6,057	599,322
Operation and maintenance of plant services	471,528	7,912	-	22,660	502,100
Transportation services	283,705	-	-	13,359	297,064
	<u>1,671,394</u>	<u>7,912</u>	<u>-</u>	<u>46,307</u>	<u>1,725,613</u>
Non-instructional programs:					
Community service operations	<u>5,165</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,165</u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Expenditures (continued):					
Other expenditures:					
AEA flowthrough	226,294	-	-	-	226,294
Long-term debt:					
Principal	-	-	54,459	-	54,459
Interest	-	-	3,274	-	3,274
Facilities acquisition and construction	-	182,124	-	-	182,124
	<u>226,294</u>	<u>182,124</u>	<u>57,733</u>	<u>-</u>	<u>466,151</u>
Total expenditures	<u>6,038,714</u>	<u>190,036</u>	<u>57,733</u>	<u>339,966</u>	<u>6,626,449</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(283,474)</u>	<u>93,673</u>	<u>(57,733)</u>	<u>(39,661)</u>	<u>(287,195)</u>
Other financing sources (uses):					
Operating transfers in	-	-	57,733	7,936	65,669
Operating transfers out	<u>(7,936)</u>	<u>(57,733)</u>	<u>-</u>	<u>-</u>	<u>(65,669)</u>
	<u>(7,936)</u>	<u>(57,733)</u>	<u>57,733</u>	<u>7,936</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	<u>(291,410)</u>	<u>35,940</u>	<u>-</u>	<u>(31,725)</u>	<u>(287,195)</u>
Fund balances beginning of year, as restated (note 7)	<u>2,147,963</u>	<u>349,255</u>	<u>-</u>	<u>264,431</u>	<u>2,761,649</u>
Fund balances end of year	<u><u>1,856,553</u></u>	<u><u>385,195</u></u>	<u><u>-</u></u>	<u><u>232,706</u></u>	<u><u>2,474,454</u></u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ (287,195)

Amounts reported for governmental activities in the
 statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 111,513	
Depreciation expense	<u>(228,857)</u>	(117,344)

Early retirement expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: (24,221)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 54,459

Change in net assets of governmental activities (Exhibit B) \$ (374,301)

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>141,722</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	85,389
Benefits	41,220
Supplies	182,103
Property	586
Depreciation	<u>5,145</u>
Total operating expenses	<u>314,443</u>
Operating (loss)	<u>(172,721)</u>
Non-operating revenues:	
State sources	4,171
Federal sources	123,390
Interest income	<u>385</u>
	<u>127,946</u>
Changes in net assets	(44,775)
Net assets beginning of year	<u>76,069</u>
Net assets end of year	<u><u>31,294</u></u>

See notes to financial statements.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	144,863
Cash payments to employees for services	(126,609)
Cash payments to suppliers for goods or services	(138,348)
Net cash (used in) operating activities	<u>(120,094)</u>
Cash flows from non-capital financing activities:	
State grants received	4,171
Federal grants received	95,296
Net cash provided by non-capital financing activities	<u>99,467</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	<u>(418)</u>
Cash flows from investing activities:	
Interest on investments	<u>385</u>
Net (decrease) in cash and cash equivalents	(20,660)
Cash and cash equivalents beginning of year	<u>38,299</u>
Cash and cash equivalents end of year	<u><u>17,639</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(172,721)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	5,145
Decrease in other receivables	3,142
Commodities used	28,094
Decrease in inventory	16,246
	<u>(120,094)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>17,639</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$28,094.

ROCKHONAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

	Scholarship Fund
	<hr/>
	\$
Assets	
Cash and pooled investments	<hr/> 1,242
Total assets	<hr/> 1,242
Net Assets	
Reserved for scholarships	<hr/> <hr/> 1,242

ROCKHONAS AREA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Fund
	<u>\$</u>
Additions:	
Local sources:	
Miscellaneous	<u>1,642</u>
Total additions	<u>1,642</u>
Deductions:	
Support services:	
Scholarships	<u>600</u>
Change in net assets	1,042
Net assets beginning of year	<u>200</u>
Net assets end of year	<u><u>1,242</u></u>

	Balance Beginning of Year, as restated (note 7)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>143,945</u>	<u>-</u>	<u>-</u>	<u>143,945</u>
Capital assets being depreciated:				
Site Improvements	319,354	-	-	319,354
Buildings	3,445,085	-	-	3,445,085
Furniture and Equipment	<u>2,055,884</u>	<u>111,513</u>	<u>-</u>	<u>2,167,397</u>
Total capital assets being depreciated	<u>5,820,323</u>	<u>111,513</u>	<u>-</u>	<u>5,931,836</u>
Less accumulated depreciation for:				
Site Improvements	198,732	11,895	-	210,627
Buildings	1,765,251	57,108	-	1,822,359
Furniture and Equipment	<u>1,246,253</u>	<u>159,854</u>	<u>-</u>	<u>1,406,107</u>
Total accumulated depreciation	<u>3,210,236</u>	<u>228,857</u>	<u>-</u>	<u>3,439,093</u>
Total capital assets being depreciated, net	<u>2,610,087</u>	<u>(117,344)</u>	<u>-</u>	<u>2,492,743</u>
Governmental activities, capital assets, net	<u>2,754,032</u>	<u>(117,344)</u>	<u>-</u>	<u>2,636,688</u>

See notes to financial statements.

	Balance Beginning of Year, as restated (note 7)	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	52,863	418	-	53,281
Less accumulated depreciation	<u>34,591</u>	<u>5,145</u>	<u>-</u>	<u>39,736</u>
Business type activities capital assets, net	<u>18,272</u>	<u>(4,727)</u>	<u>-</u>	<u>13,545</u>
Depreciation expense was charged to the following function:				
Governmental activities:				
Support services:				
Student support				83
Instructional support				1,623
Administration services				2,845
Plant operation and maintenance				4,788
Transportation				69,442
Unallocated				<u>150,076</u>
				<u>228,857</u>
Business Type activities				
Food service operations				<u>5,145</u>
				<u>5,145</u>

See notes to financial statements.

POCHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The Pocahontas Area Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pocahontas, Rolfe, Havelock & Plover, Iowa, and agricultural territory in Pocahontas and Palo Alto Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pocahontas Area Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Pocahontas Area Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Pocahontas County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Physical Plant and Equipment Levy is used for the acquisition of capital assets (over \$500) and the maintenance and purchase of land improvements and facilities.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded the amount budgeted in the other expenditures functional area.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 was as follows:

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT						
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund						
Required Supplementary Information						
Year ended June 30, 2004						
	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	3,403,257	145,248	3,548,505	3,662,194	3,662,194	(113,689)
State sources	2,770,916	4,171	2,775,087	3,196,347	3,196,347	(421,260)
Federal sources	208,871	95,296	304,167	380,000	380,000	(75,833)
Total receipts	6,383,044	244,715	6,627,759	7,238,541	7,238,541	(610,782)
Disbursements:						
Instruction	4,483,970	-	4,483,970	6,447,269	6,447,269	1,963,299
Support services	1,725,613	-	1,725,613	2,445,000	2,445,000	719,387
Non-instructional programs	5,165	265,375	270,540	340,584	340,584	70,044
Other expenditures	466,151	-	466,151	497,896	497,896	31,745
Total disbursements	6,680,899	265,375	6,946,274	9,730,749	9,730,749	2,784,475
Excess (deficiency) of receipts over (under) disbursements	(297,855)	(20,660)	(318,515)	(2,492,208)	(2,492,208)	2,173,693
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(297,855)	(20,660)	(318,515)	(2,492,208)	(2,492,208)	2,173,693
Balance beginning of year	2,608,083	38,299	2,646,382	2,530,883	2,530,883	115,499
Balance end of year	2,310,228	17,639	2,327,867	38,675	38,675	2,289,192

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	6,383,044	(21,213)	6,339,254
Expenditures	6,680,899	35,072	6,626,449
Net	(297,855)	(56,285)	(287,195)
Other financing sources (uses)	-	-	-
Beginning fund balances	2,608,083	153,566	2,761,649
Ending fund balances	2,310,228	97,281	2,474,454

	Proprietary Fund Type		
	Enterprise Cash Basis	Enterprise Accrual Adjustments	Enterprise Accrual Basis
Revenues	244,715	24,953	269,668
Expenditures	265,375	49,068	314,443
Net	(20,660)	(24,115)	(44,775)
Beginning fund balances	38,299	37,770	76,069
Ending fund balances	17,639	13,655	31,294

(4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$208,602, \$210,484, and \$205,370 respectively, equal to the required contributions for each year.

(5) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$226,294 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	<u>Construction Loan</u>
Balance beginning of year	\$78,916
Additions	-
Reductions	<u>54,459</u>
Balance end of year	<u>\$24,457</u>

During the year ended June 30, 1995 the District borrowed \$450,000 from the Pocahontas State Bank to help finance the construction of an industrial technologies addition under section 297.36 of the Code of Iowa. The District pledges the proceeds of its PPEL levy to pay the interest and principal when due.

The loan has an interest rate of 5% and shall be paid in semi-annual installments of \$28,866 which includes both principal and interest. The loan is for ten years and the final payment is due October 20, 2004.

Payments are due as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	<u>\$24,457</u>	<u>611</u>	<u>25,068</u>

(7) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund				Total
	General	Physical Plant and Equipment Levy	Debt Service	Nonmajor Special Revenues	
Net assets, June 30, 2003, as previously reported	\$2,147,963	349,255	-	264,431	2,761,649
GASB Interpretation 6 adjustments	-	-	-	-	-
Net assets, July 1, 2003, as restated for governmental funds	<u>\$2,147,963</u>	<u>349,255</u>	<u>-</u>	<u>264,431</u>	2,761,649
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$3,210,236					2,754,032
Long-Term Liabilities:					
Capital loan notes					(78,916)
Net assets, July 1, 2003, as restated					<u>\$5,436,765</u>

Required Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Assets			
Cash and pooled investments	88,153	57,759	145,912
Property tax receivable:			
Current year	771	-	771
Succeeding year	95,000	-	95,000
Other receivables	297	194	491
Prepaid expenses	85,532	-	85,532
Total assets	<u>269,753</u>	<u>57,953</u>	<u>327,706</u>
Liabilities and Fund Equity			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	95,000	-	95,000
	<u>95,000</u>	<u>-</u>	<u>95,000</u>
Fund equity:			
Unreserved, undesignated fund balance	174,753	57,953	232,706
	<u>174,753</u>	<u>57,953</u>	<u>232,706</u>
Total liabilities and fund equity	<u>269,753</u>	<u>57,953</u>	<u>327,706</u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	74,603	-	74,603
Other	4,190	221,385	225,575
State sources:	127	-	127
Total revenues	<u>78,920</u>	<u>221,385</u>	<u>300,305</u>
Expenditures:			
Instruction:			
Regular instruction	58,054	-	58,054
Co-curricular instruction	-	235,605	235,605
Support services:			
Student services	4,231	-	4,231
Administration services	6,057	-	6,057
Plant operation and maintenance	22,660	-	22,660
Student transportation	13,359	-	13,359
Total expenditures	<u>104,361</u>	<u>235,605</u>	<u>339,966</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(25,441)</u>	<u>(14,220)</u>	<u>(39,661)</u>
Other financing sources (uses):			
Operating transfers in	<u>-</u>	<u>7,936</u>	<u>7,936</u>
Excess (deficiency) of revenues over (under) expenditures and other financing uses	<u>(25,441)</u>	<u>(6,284)</u>	<u>(31,725)</u>
Fund balances beginning of year, as restated (note 7)	<u>200,194</u>	<u>64,237</u>	<u>264,431</u>
Balance end of year	<u><u>174,753</u></u>	<u><u>57,953</u></u>	<u><u>232,706</u></u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Concessions	-	112	-	112
Computer Supplies	717	-	-	717
Class of 2001	101	-	-	101
Class of 2002	1,267	-	1,137	130
Class of 2003	1,438	-	5	1,433
Class of 2004	4,700	158	3,002	1,856
Class of 2005	421	13,110	9,245	4,286
Class of 2006	398	548	57	889
Class of 2007	-	390	47	343
Towel Fee	697	-	-	697
Locker Rent	2,651	365	360	2,656
Board of Education	347	274	295	326
Mock Trial	4,571	10	779	3,802
Pop/Juice Rolfe Center	28	-	-	28
Pop/Juice - Vending	435	11,090	10,780	745
Restroom - Vending	182	-	-	182
Administrative Resale	210	-	-	210
Vocal Music	915	1,280	1,121	1,074
Instrumental Music	(5)	7,175	6,763	407
Band Uniforms	5	275	-	280
Band Insurance	686	-	-	686
Drill Team	2,779	8,929	8,521	3,187
Football	-	11,291	11,291	-
Activity Trips	85	-	-	85
Cheerleaders	(891)	13,809	12,693	225
Weight Training	187	-	-	187
Golf	(40)	659	619	-
Basketball	3,335	15,088	18,423	-
Boys Basketball Camp	126	3,037	3,033	130
Volleyball	-	2,496	2,496	-
Softball/Baseball	346	13,400	13,746	-
Softball Trips	-	1,785	1,430	355
Track	-	9,619	9,619	-
Track Trip - Boys	1,361	678	772	1,267
Track Trip - Girls	1,085	573	160	1,498
Cross Country	-	703	521	182
Wrestling	-	9,033	9,033	-
Activity Tickets	-	6,537	6,537	-
Activity Tickets/Senior Citizens	292	240	-	532
Wrestling Mothers	3,003	6,688	7,841	1,850
Football Camp	2,823	3,146	4,517	1,452
Athletic Resale	358	1,505	1,317	546
Volleyball Camp	902	3,036	1,973	1,965

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
District Football	187	389	576	-
Class of 1994	20	-	20	-
Class of 1995	226	-	226	-
Class of 1996	292	7	299	-
Class of 1997	840	-	578	262
Class of 1998	146	-	-	146
Class of 1999	1,530	-	-	1,530
Marketing Class	108	-	-	108
Cross Country Special Fund	356	160	516	-
Trading Post Store	599	21,825	20,385	2,039
JH Student Council	1,942	177	329	1,790
Science Club	47	-	-	47
Art Club	485	-	-	485
Mystery Photo Contest	50	-	-	50
Student Council	-	615	615	-
FFA	3,754	25,544	25,623	3,675
Home Ec Club	-	247	247	-
Home Ec Resale	143	510	549	104
Spanish Club	192	-	-	192
Annual	2,371	10,533	11,257	1,647
Newspaper	7	-	-	7
Dramatics	234	1,161	794	601
National Honor Society	126	167	293	-
Baseball Mothers	3,383	3,597	4,980	2,000
Jr High Math	93	-	-	93
Softball Parents	2,233	3,398	5,631	-
Energy and Power Class	300	-	-	300
Swing Choir	251	-	-	251
Mentoring Program	50	-	-	50
Task Force Fund	-	1,582	1,411	171
Jump Rope for Heart	1,083	3,427	3,503	1,007
HS Take Charge for Education	298	-	-	298
Special Education	43	-	-	43
Carnival	2,823	1,119	1,016	2,926
After Prom Party	347	5,892	6,239	-
Interest	4,163	1,932	2,385	3,710
	<u>64,237</u>	<u>229,321</u>	<u>235,605</u>	<u>57,953</u>
Total				

See accompanying independent auditor's report.

ROCKHILLS AREA COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

All Governmental Funds

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	2,207,600	2,145,756	2,004,484	1,884,154
Special revenue	<u>309,574</u>	<u>335,247</u>	<u>331,484</u>	<u>310,425</u>
	<u>2,517,174</u>	<u>2,481,003</u>	<u>2,335,968</u>	<u>2,194,579</u>
State sources:				
General	2,770,389	2,891,496	2,962,459	3,147,957
Special revenue	<u>527</u>	<u>1,881</u>	<u>1,740</u>	<u>26,498</u>
	<u>2,770,916</u>	<u>2,893,377</u>	<u>2,964,199</u>	<u>3,174,455</u>
Federal sources:				
General	<u>208,871</u>	<u>259,370</u>	<u>237,483</u>	<u>208,376</u>
Total	<u>5,496,961</u>	<u>5,633,750</u>	<u>5,537,650</u>	<u>5,577,410</u>

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
District Football	187	389	576	-
Class of 1994	20	-	20	-
Class of 1995	226	-	226	-
Class of 1996	292	7	299	-
Class of 1997	840	-	578	262
Class of 1998	146	-	-	146
Class of 1999	1,530	-	-	1,530
Marketing Class	108	-	-	108
Cross Country Special Fund	356	160	516	-
Trading Post Store	599	21,825	20,385	2,039
JH Student Council	1,942	177	329	1,790
Science Club	47	-	-	47
Art Club	485	-	-	485
Mystery Photo Contest	50	-	-	50
Student Council	-	615	615	-
FFA	3,754	25,544	25,623	3,675
Home Ec Club	-	247	247	-
Home Ec Resale	143	510	549	104
Spanish Club	192	-	-	192
Annual	2,371	10,533	11,257	1,647
Newspaper	7	-	-	7
Dramatics	234	1,161	794	601
National Honor Society	126	167	293	-
Baseball Mothers	3,383	3,597	4,980	2,000
Jr High Math	93	-	-	93
Softball Parents	2,233	3,398	5,631	-
Energy and Power Class	300	-	-	300
Swing Choir	251	-	-	251
Mentoring Program	50	-	-	50
Task Force Fund	-	1,582	1,411	171
Jump Rope for Heart	1,083	3,427	3,503	1,007
HS Take Charge for Education	298	-	-	298
Special Education	43	-	-	43
Carnival	2,823	1,119	1,016	2,926
After Prom Party	347	5,892	6,239	-
Interest	4,163	1,932	2,385	3,710
	<u>64,237</u>	<u>229,321</u>	<u>235,605</u>	<u>57,953</u>
Total	<u>64,237</u>	<u>229,321</u>	<u>235,605</u>	<u>57,953</u>

See accompanying independent auditor's report.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

All Governmental Funds

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	2,207,600	2,145,756	2,004,484	1,884,154
Special revenue	<u>309,574</u>	<u>335,247</u>	<u>331,484</u>	<u>310,425</u>
	<u>2,517,174</u>	<u>2,481,003</u>	<u>2,335,968</u>	<u>2,194,579</u>
State sources:				
General	2,770,389	2,891,496	2,962,459	3,147,957
Special revenue	<u>527</u>	<u>1,881</u>	<u>1,740</u>	<u>26,498</u>
	<u>2,770,916</u>	<u>2,893,377</u>	<u>2,964,199</u>	<u>3,174,455</u>
Federal sources:				
General	<u>208,871</u>	<u>259,370</u>	<u>237,483</u>	<u>208,376</u>
Total	<u><u>5,496,961</u></u>	<u><u>5,633,750</u></u>	<u><u>5,537,650</u></u>	<u><u>5,577,410</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Pocahontas Area Community School District:

We have audited the general purpose financial statements of the Pocahontas Area Community School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pocahontas Area Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pocahontas Area Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pocahontas Area Community School District and other parties to whom Pocahontas Area Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pocahontas Area Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

October 21, 2004

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We have noted the duties of the individual include: 1) preparation of checks, signing of checks, recording the transactions in the journals, and reconciling the bank; 2) receiving cash receipts, preparing the receipt, making up the bank deposit, and recording the transaction in the journals.

Recommendation - We realize with a limited number of administrative employees, segregation of duties to eliminate incompatible duties is difficult. We also realize the job description, as defined by the Code of Iowa, of certain members of the administrative staff make the segregations even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will investigate possible alternatives to this situation.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

04-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.

04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

POCAHONTAS AREA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued):

- 04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

